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UNCLAS SECTION 01 OF 02 ASHGABAT 000260

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STATE FOR SCA/CEN (PERRY)

E.O. 12958: N/A
TAGS: ENRG PREL SOCI EAID AF TX US
SUBJECT: PRIVATE SECTOR OIL AND GAS TELLS PDAS MANN MORE FOREIGN
INVESTMENT NEEDED

Refs: A) Ashgabat 128
B) 06 Ashgabat 1205

Summary

¶1. (SBU) Private sector oil and gas representatives told visiting PDAS Steven Mann during a March 4 lunch that the primary inhibition to the further (and long-term) development of Turkmenistan's oil and gas sector was lack of foreign direct investment (FDI). They also believed that a corollary to Turkmenistan's future success was an improved educational system. The community was unanimous in its positive assessment of the new Deputy Chairman of the Cabinet of Ministers for Oil and Gas Tachberdi Tagyev's technical ability to manage the internal functions of the industry, but divided over Tagyev's perceived aptitude to oversee the international business sections of his new, and expanded, portfolio. All agreed that the current decision-making authority in the oil and gas sector had not been clarified. The group welcomed increased attention by the United States Government to Turkmenistan's hydrocarbon discussions. End Summary.

Representatives Clear and United . .

¶2. (SBU) Familiar interlocutors for the embassy met with PDAS Mann at the Charge's residence for a Saturday lunch to discuss the oil and gas sector from the private sector perspective. Representatives from Burren Resources Petroleum, Dragon Oil, Maersk Oil, Calyk Energy, Cooper Cameroon, Merhav, and the European Bank for Reconstruction and Development (EBRD) and European Union Technical Assistance to the Commonwealth of Independent States (EU-TACIS) contributed both a deep and broad perspective on the current situation in Turkmenistan and the prospects for future development. The group was united in the call for an improved educational system to support their work, but divided in prioritizing the educational needs and instructional language. One representative simply said that the system was so impoverished that discussions regarding the best strategy should not delay the overhaul of the system, including better quality instructors and an improved curriculum.

Future Uncertain Without Investment and Leadership
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¶3. (SBU) Collectively, private sector oil and gas companies enjoyed a profitable 2006. The numbers were encouraging, but companies saw the opportunity for more money in the state coffers and their own pockets with an improved business investment climate. The private sector presence was needed to improve Turkmenistan's insufficient and deteriorating infrastructure and to expand exploration of petroleum deposits. Maersk General Manager Peter Barnett complained openly about the difficult year (2006) Maersk experienced with the national tax authorities, then confirmed that on March 1, Maersk sold 50% of their interests on Caspian Sea Blocks 11-12 to ONGC Videsh Ltd (OVL). (Comment: On February 26, Pol/Econoff had the most recent of a series of meetings with local U.S. company representatives, this time Weatherford - evaluation, drilling and intervention, on questions regarding double-taxation. Weatherford's country manager confirmed that business exploded for the company in 2006, and the local tax authorities had taken a new and more aggressive interest in their business. End Comment.) Others at the table disclosed similar frustrations, starting with the daunting challenge of securing visas, a process which cost up to $700. Turkmenistan's "unwelcome" mat minimized foreign investment prospects (ref A).

¶4. (SBU) The group waxed nostalgic for the clear and competent leadership of the international companies that was enjoyed when Yolly Gurbanmuradov was at the helm as Deputy Chairman for Oil and Gas (1999-2005). After Gurbanmuradov was imprisoned by Niyazov in 2005, Niyazov usurped all oil and gas industry decision-making authority. No decision-making authority had been clarified under Berdimuhammedov, and all were uncertain as to who would be the important strategist for the future of Turkmenistan's oil and gas. Dragon Oil's Vlad Pashkin described Deputy Chairman Tagyev as being

out of his element when it came to non-technical discussions, but Calyk Energy representative Aziz Cengel quickly came to Tagyev's defense and said that Tagyev had worked well with Calyk Energy. (Comment: Tagyev was mentored by Gurbanmuradov, who was also known to have a working liaison with Calyk Energy company owner Ahmet Calyk. Cengel's quick defense of Tagyev and the above-the-fold placement in the state-run newspapers of Calyk's meeting with the new president days after Berdimuhammedov's inauguration suggests this business liaison is continuing. End Comment).

¶5. (SBU) All of the private sector representatives said that there had been little movement in the industry since Niyazov's December 21 death, except for continued rumors of "the Chinese" being awarded onshore drilling Production Sharing Agreements (PSAs), an obvious sore spot for several of the lunch attendees (ref B). During Niyazov's time, foreign companies were only permitted to work offshore under the successful PSA system. Several representatives said that "the Chinese" lacked expertise in the field and cited the late November 2006 Chinese drilling well blow-out in South Yoloten as an example but some advised that the fire had been extinguished in mid-January by an "American company."

Fuzzy Statistics, Not a Problem

¶6. (SBU) Transparency has never been the Government of Turkmenistan's hallmark, and the industry representatives seem unconcerned. When the government's 2005 gas production statistic of 63 billion cubic meters (bcm) was announced at the table, 2006 statistics had not been publicly released, the initial chuckles over the government's claim that 20 bcm was for domestic demand abated when the collection instruments were explained. Included in this number was the fueling of power stations and, according to Dragon Oil and Burren Resources Petroleum, their companies had to report all flared natural gas volumes, which was then recorded by the government as production volume. When the need for open disclosure of Turkmenistan's recoverable reserves was put on the table, Mann said that the audit information was unimportant. The industry knew there was something in the ground, so private industry should explore the potential, and business would determine whether it was

recoverable.

Comment

¶7. (SBU) The group's cautious optimism since Gurbanguly Berdimuhammedov became president seems to be justified. EBRD Resident Head Office Tony Myron confirmed that it was not only the private companies that were doing well in Turkmenistan, but that available banking evidence suggested that the government's reserves had grown with the increased world hydrocarbon prices and Gazprom's deal to more than double last year's contract price for Turkmenistan's natural gas. All agreed that Turkmenistan's infrastructure could not currently support more output but that the country was rich with possibilities. However, with its extra cash, the government potentially had the financial ability to make some internal oil and gas investments. And, with Turkmenistan's future potential as a direct energy supplier to Europe and South Asia boosting exploratory prospects, the markets were eager to support additional supplies. End Comment.

¶8. PSAS Mann has cleared this cable.

BRUSH